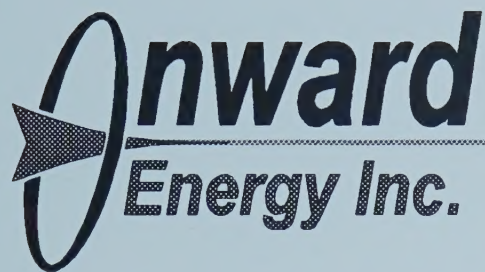


AR60

Windspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6



**1994
Annual
Report**

Onward Energy Inc. is a publicly traded, Canadian junior oil and gas company based in Calgary, Alberta. Onward Energy focuses primarily on acquisitions, development and exploration to advance towards sustained growth and create long term value for the Company's shareholders.

Onward Energy's common shares are listed for trading on the Alberta Stock Exchange under the symbol "ONI".

HIGHLIGHTS

	SIX MONTHS ENDED DECEMBER 31 1994	YEAR ENDED JUNE 30 1994
FINANCIAL		
Revenue	\$ 104,410	\$ 46,720
Working Capital	121,411	691,909
Debt	-	-
Funds from Operations	(62,583)	(47,505)
Per Share	(0.01)	(0.00)
Net Income (Loss)	(86,324)	(52,121)
OPERATIONS		
Oil Production (Bbl/d)	42	11
Proven Oil Reserves (MSTB)	148	40
Probable Oil Reserves (MSTB)	2	6
Value of Reserves at 15% Discount (\$1,000)	862	352

ANNUAL MEETING

The Annual General Meeting of the shareholders will be held on Friday, June 23, 1995 at 10:00 a.m. at Suite 1030, 407 - 2nd Street S.W., Calgary, Alberta.

REPORT TO SHAREHOLDERS

Onward Energy Inc. changed the Company's year end from June 30 to December 31 in 1994. This annual report will cover the financial period between July 1, 1994 and December 31, 1994.

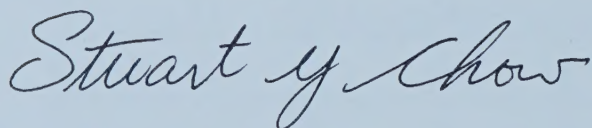
During the reporting period, the Company has amalgamated with its wholly own subsidiary, Ryanda Resource Ltd. All activities are being carried on by Onward Energy Inc.

During the reporting period, the Company drilled a successful oil well at 11-22-55-5W5 in the Cherhill area in Alberta. The Company also performed workovers on the wells 6-22-55-5W5 in the Cherhill area and 1-1-46-13W5 in the Brazeau River area.

As a result of the successes in drilling and workover activities during this reporting period, the oil production rate increased to 42 barrels per day at the end of this reporting period in December, 1994, compared to 11 barrels per day in the last reporting period in June, 1994. The oil production rate subsequently increased to approximately 90 barrels per day during the month of March, 1995.

Onward Energy plans to focus on maximizing the returns from the Company's existing properties and continue to search for prudent acquisitions that will provide a solid asset base for future growth.

The continued support from our shareholders and Board of Directors is sincerely appreciated. I believe we are one step closer in achieving sustained quality growth for the Company.

A handwritten signature in cursive script that reads "Stuart Y. Chow".

Stuart Y. Chow, P.Eng.
President and Chief Executive Officer
May 12, 1995

ANTONY CHITTICK BLEACKLEY & HANSON

#462, 301 - 14th Street N.W., Calgary, Alberta T2N 2A1

Telephone: (403) 270-3802

CHARTERED ACCOUNTANTS

Fax: (403) 270-3830

Raymond P. Antony*
Dennis B. Bleackley*
Robert C. Chittick*
Lorne A. Hanson*
Glenn F. McCowan*

May 9, 1995

AUDITORS' REPORT

To the Shareholders of
Onward Energy Inc.

We have audited the consolidated balance sheet of the Onward Energy Inc. as at December 31, 1994 and the consolidated statements of operations and deficit and changes in financial position for the six month period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and the results of its operations and the changes in its financial position for the six month period then ended in accordance with generally accepted accounting principles.

The financial statements as at June 30, 1994 and for the year then ended, prior to restatement for the items described in Note 8, were audited by another auditor who expressed an opinion without reservation on those statements in his report dated October 25, 1994. We have examined the adjustments that were applied to restate the June 30, 1994 financial statements and in our opinion, such adjustments are appropriate and have been properly applied.



Chartered Accountants

ONWARD ENERGY INC.
CONSOLIDATED BALANCE SHEET

	December 31 1994	June 30 1994 (Restated - See Note 8)
ASSETS		
Current assets:		
Cash and deposits	\$ 183,450	\$ 766,823
Accounts receivable	20,561	3,080
Inventory	7,144	5,421
GST recoverable	34,361	5,982
Prepaid	285	1,789
	<u>245,801</u>	<u>783,095</u>
Capital assets, at cost (Note 4):	696,114	180,422
Less: Accumulated depletion and amortization	<u>40,430</u>	<u>16,689</u>
	655,684	163,733
	<u>\$ 901,485</u>	<u>\$ 946,828</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 123,928	\$ 90,724
Income taxes payable	<u>462</u>	<u>462</u>
	124,390	91,186
Provision for site restoration	29,484	21,707
Shareholders' equity:		
Share capital (Note 5)	886,056	886,056
Deficit	<u>(138,445)</u>	<u>(52,121)</u>
	747,611	833,935
	<u>\$ 901,485</u>	<u>\$ 946,828</u>

APPROVED ON BEHALF OF THE BOARD:

Stuart Y. Chow , Director
Shula C. Chow , Director

ONWARD ENERGY INC.

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

	Six months ended December 31 1994	Year ended June 30 1994 (Restated - See Note 8)
Revenue:		
Oil and gas	\$ 94,709	\$ 36,601
Interest	<u>9,701</u>	<u>10,119</u>
	104,410	46,720
Expenses:		
Oil and gas production	118,303	34,877
General administration	40,213	52,650
Bank charges and interest	700	725
Site restoration and abandonment	7,777	5,973
Amortization	8,160	1,212
Depletion	<u>15,581</u>	<u>3,404</u>
	190,734	98,841
Net loss for the period	(86,324)	(52,121)
Deficit, beginning of period	<u>(52,121)</u>	<u>-</u>
Deficit, end of period	<u>\$ (138,445)</u>	<u>\$ (52,121)</u>
Loss per share	<u>\$ (0.011)</u>	<u>\$ (0.007)</u>

ONWARD ENERGY INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Six months ended December 31 1994	Year ended June 30 1994 (Restated - See Note 8)
Cash provided (used) by operating activities:		
Net loss for the period	\$ (86,324)	\$ (52,121)
Add: Adjustment for items not affecting cash -		
Depletion	15,581	3,404
Amortization	8,160	1,212
	(62,583)	(47,505)
Decrease (increase) in non-cash working capital items -	(12,875)	74,914
	(75,458)	27,409
Investing activities:		
Additions of capital assets	(515,692)	(166,349)
Financing activities:		
Issuance of share capital	-	814,656
Provision for site restoration and abandonment	7,777	21,707
	7,777	836,363
Net increase (decrease) in cash	(583,373)	697,423
Cash, beginning of period	766,823	69,400
Cash, end of period	\$ 183,450	\$ 766,823

ONWARD ENERGY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1994

1. Incorporation:

The Company was incorporated on June 8, 1993 under the provisions of the Business Corporations Act (Alberta). By shareholder approval of the acquisition of all the outstanding shares of Ryanda Resources Ltd. ("Major Transaction"), the Company commenced oil and gas operations on November 1, 1993.

2. Significant accounting policies:

Consolidation -

The consolidated financial statements include the accounts of Onward Energy Inc. (the "Company") and its wholly owned subsidiary Ryanda Resources Ltd.

Properties and equipment -

(a) Capitalized costs -

The Company follows the full cost method of accounting for oil and gas activities whereby all costs associated with the acquisition, exploration and development of oil and gas reserves are capitalized. Such costs include those related to lease acquisition, geological and geophysical activities, lease rentals on unproved properties, the costs of drilling both productive and non-productive wells and that portion of administrative expenses applicable to those activities. To date, no general and administrative costs have been capitalized.

Proceeds from the disposal of properties are normally applied as a reduction of the costs unless a significant disposal occurs in which case a gain or loss is recorded.

(b) Depletion and amortization -

Depletion of oil and gas properties and amortization of production equipment is provided using the unit of production method based on estimated proved oil and gas reserves as determined by the Company's reservoir engineers. The relative volumes of oil and gas reserves and production are converted to a common unit of measure on the basis of relative energy content.

(c) Future site restoration and abandonment -

The estimated costs for future site restoration and abandonment are provided on the unit of production method based on estimated costs and regulations in effect at year end.

ONWARD ENERGY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1994

2. Significant accounting policies (Continued):

(d) Ceiling test -

The Company applies an annual ceiling test to capitalized costs to ensure that such costs do not exceed the estimated value of future net revenues from the production of proved oil and gas reserves calculated at year end prices, less future development costs and administrative, financing, site restoration and abandonment and income tax expenses. Any reduction in value as a result of the ceiling test is charged to operations.

(e) Joint venture activities -

Substantially all of the Company's exploration and production activities are carried on jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

3. Acquisition -

Effective November 1, 1993 the Company acquired all of the issued and outstanding shares of Ryanda Resources Ltd. a corporation controlled by certain officers and directors of the Company. The purchase price and consideration received consisted of the following:

Purchase price	
Cash	\$ 53,000
1,400,000 common shares of Onward Energy Inc. issued at \$0.25 per share	<u>350,000</u>
	403,000
Less:	
Reduction in value attributed to shares issued as a result of common control transaction (See Note 5)	<u>(349,999)</u>
	<u>\$ 53,001</u>
Consideration received:	
Book value of net identifiable assets	\$ 15,410
Excess purchase price allocated to value of oil and gas property. This excess purchase price is being amortized over the life of the reserves based on production	<u>37,591</u>
	<u>\$ 53,001</u>

ONWARD ENERGY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1994

4. Capital assets:

	<u>December 31, 1994</u>			<u>June 30 1994</u>
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>	<u>Restated - See Note 8</u>
Oil and gas properties	\$ 581,004	\$ 28,357	\$ 552,647	\$ 157,958
Oil and gas equipment	94,180	11,027	83,153	5,775
Office furniture and equipment	<u>20,930</u>	<u>1,046</u>	<u>19,884</u>	<u>-</u>
	<u>\$ 696,114</u>	<u>\$ 40,430</u>	<u>\$ 655,684</u>	<u>\$ 163,733</u>

5. Share capital:

Authorized -

The Company is authorized to issue the following shares -

- Unlimited number of common shares
- Unlimited number of preferred shares

Issued -

The following common shares have been issued since the date of incorporation -

	<u>Number of shares</u>	<u>Amount</u>
Issued for cash, June 16, 1993	2,340,000	\$ 70,200
Issued for cash, June 29, 1993	40,000	1,200
Issued for cash, October 29, 1993	1,800,000	180,000
Issued for oil and gas properties (Note i)	1,400,000	1
Issued for cash, December 3, 1993 (Note ii)	90,000	9,000
Issued for cash, January 25, 1994 (Note ii)	90,000	9,000
Issued for cash, February 10, 1994 (Note ii)	410,000	41,000
Issued for cash, February 15, 1994 (Note iii)	1,081,900	486,855
Issued for cash, March 15, 1994 (Note iii)	<u>306,989</u>	<u>138,145</u>
	<u>7,558,889</u>	<u>935,401</u>
Less: Costs related to public offering		<u>(49,345)</u>
		<u>\$ 886,056</u>

ONWARD ENERGY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1994

5. Share capital (Continued):

- (i) On November 1, 1993, the Company issued 1,400,000 shares at a price of \$.25 per share on a private placement basis. These shares were issued to certain officers and directors of the Company as consideration for all of the issued and outstanding shares of Ryanda Resources Ltd. This constituted the Company's "Major Transaction". As this transaction was non arms length, it is being accounted for in accordance with continuity of interest accounting whereby the net assets of the subsidiary are consolidated at their carrying value except to the extent that cash payments exceed carrying value. (See Note 8(b)).
- (ii) Common shares were issued on the exercise of Agent's and Directors' stock options at a price of \$.10 per share.
- (iii) Common shares were issued on private placement basis at a price of \$.45 per share.
- (iv) On September 12, 1994, the Company granted stock options to purchase a total of 685,000 common shares to officers and directors at a price of \$.40 per common share until September 11, 1999.

6. Income taxes:

At December 31, 1994 the Company and its subsidiary have unutilized losses for income tax purposes of \$209,000. These losses are available to be applied against taxable income of future years except that, if not so applied, the losses will expire by December 31, 1999. The potential future benefit of these losses has not been recognized in these financial statements.

The Company also has undeducted Canadian Oil and Gas Property Expenses and Canadian Development Expenses of \$413,000.

7. Related party transactions:

Included in the general and administration was an amount of \$14,950 paid to a corporation controlled by certain officers and directors of the Company for consulting services.

During the period the Company purchased office furniture and equipment from certain officers and directors of the Company. The aggregate purchase price was \$20,930 which was the appraised value at the date of purchase.

ONWARD ENERGY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1994

8. Prior period adjustments:

Certain errors in prior period financial statements have been corrected. These corrections have been accounted for retroactively and the financial statements of prior periods presented have been restated. The errors are summarized as follows:

a) Consolidated results:

The consolidated financial statements have been adjusted to include the results of operations of the Company's subsidiary, Ryanda Resources Ltd., from the date of acquisition only. The June 30, 1994 statements as originally prepared, included seven months of Ryanda's operations prior to acquisition.

b) Purchase price allocation on acquisition of subsidiary:

On the acquisition of Ryanda Resources Ltd. the net assets were valued with reference to the market value of the shares issued by Onward (\$350,000) plus the value of the cash paid (\$53,000). As this was a non arms length transaction the value utilized should be in reference to the carrying value of the net assets on the books of the acquired company in accordance with the continuity of interest method of accounting. To the extent that the actual cash payment exceeds the carrying value of the net assets, the excess purchase price has been allocated to the value of oil and gas properties and is being amortized over the life of the reserves based on production.

c) Categorization of capital costs as operating expenses:

Certain capital costs related to oil and gas properties were expensed as operating costs in the prior period. These costs have been reclassified and depletion has been adjusted accordingly.

d) Organization costs:

Various costs related to going public were capitalized as incorporation costs on the June 30, 1994 consolidated financial statements. The costs included agents commission and legal fees which are more properly accounted for by netting them against share capital. In addition certain other incidental costs were capitalized which should be classified as general and administrative expenses.

ONWARD ENERGY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1994

8. Prior period adjustments (Continued):

The net effect of these errors on the June 30, 1994 consolidated financial statements is as follows:

	<u>Restated</u>	<u>As Previously Reported</u>	<u>Increase (Decrease)</u>
Capital assets	\$ 163,733	\$ 380,574	\$ (216,841)
Total assets	946,828	1,215,763	(268,935)
Share capital	886,056	1,285,400	(399,344)
Deficit	52,121	182,529	(130,408)
Total revenue	46,720	128,951	(82,231)
Total expenses	98,841	311,480	(212,639)
Net loss	52,121	182,529	(130,408)

9. Amalgamation:

Effective January 1, 1995 the Company was amalgamated with its 100% owned subsidiary Ryanda Resources Ltd.

ONWARD ENERGY INC.
CORPORATE INFORMATION

DIRECTORS

Stuart Y. Chow
Sheila C. Chow
Christopher C. Chow
Dewayne W. Chow
George K. Chow

AUDITORS

Antony Chittick Bleackley
& Hanson
462, 301 - 14th Street N.W.
Calgary, Alberta
T2N 2A1

OFFICERS

Stuart Y. Chow, P.Eng.
President
Chief Executive Officer

Sheila C. Chow,
Secretary

STOCK EXCHANGE LISTING

The Alberta Stock Exchange
Trading Symbol - ONI

LEGAL COUNSEL

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Corporate Lawyer

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BANKERS

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**TRANSFER AGENT
AND REGISTRAR**

The R-M Trust Co.
Calgary, Alberta

